CalHFA Board Meeting

November 13, 2008
Municipal Capital Market Update

- Limited market access for new financings
  - CalHFA is not alone – access limited for all municipal issuers
  - New issuance is driven by retail participation
  - Absolute interest rates are high
  - Retail investors replacing institutional investors in the primary market
  - Limited participation by institutional investors

- Last week’s municipal issuance included
  - Indiana HFA – 30-year bond yield of 6.45%

- This week’s municipal issuance includes
  - Connecticut, Florida and South Dakota HFAs – hopeful to find investors for 30-year bonds at 6.25%
**Municipal Capital Market Update**

- Some improvement in short-term interest rates
  - Daily resets:
    - Four weeks ago: 1.3% to 8.25% (expected 2.88%)
    - Last week: 0.4% to 8% (expected 1.46%)
    - This week: 0.5% to 8% (expected 1.15%)

- Continued liquidity and credit concerns
  - Good demand for “clean” issues is driving rates down
  - Many bonds remain with liquidity banks’ on their standby purchase agreements
  - New draws on liquidity facilities have slowed in the last few weeks
  - Prior to this year, the remarketing agents have never drawn on these facilities
  - Reassignment of remarketing agents has improved performance
  - As of Nov 13, CalHFA has $648Mn of bank bonds
CalHFA’s portfolio of bank bonds as of 11/12/08
CalHFA’s portfolio of bank bonds as of 11/12/08
sorted by liquidity banks and CalHFA credits

<table>
<thead>
<tr>
<th>Liquidity Bank</th>
<th>HMRB</th>
<th>G-O</th>
<th>Total</th>
<th>Total Liquidity</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$464,525,000</td>
<td>$183,405,000</td>
<td>$647,930,000</td>
<td>$4,011,210,000</td>
<td>16%</td>
</tr>
<tr>
<td>Citibank</td>
<td>$35,000,000</td>
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<td>$35,000,000</td>
<td>$35,000,000</td>
<td>100%</td>
</tr>
<tr>
<td>Depfa</td>
<td></td>
<td>$133,005,000</td>
<td>$133,005,000</td>
<td>$134,005,000</td>
<td>99%</td>
</tr>
<tr>
<td>BLB/JP/WLB</td>
<td>$51,285,000</td>
<td></td>
<td>$51,285,000</td>
<td>$115,160,000</td>
<td>45%</td>
</tr>
<tr>
<td>Dexia</td>
<td>$338,705,000</td>
<td></td>
<td>$338,705,000</td>
<td>$789,955,000</td>
<td>43%</td>
</tr>
<tr>
<td>STRS/Helaba</td>
<td></td>
<td>$50,400,000</td>
<td>$50,400,000</td>
<td>$152,660,000</td>
<td>33%</td>
</tr>
<tr>
<td>STRS/Lloyds</td>
<td>$1,000,000</td>
<td></td>
<td>$1,000,000</td>
<td>$5,760,000</td>
<td>17%</td>
</tr>
<tr>
<td>BoNY</td>
<td>$23,020,000</td>
<td></td>
<td>$23,020,000</td>
<td>$161,605,000</td>
<td>14%</td>
</tr>
<tr>
<td>Lloyds</td>
<td>$15,415,000</td>
<td></td>
<td>$15,415,000</td>
<td>$402,410,000</td>
<td>4%</td>
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<tr>
<td>STRS/KBC</td>
<td>$100,000</td>
<td></td>
<td>$100,000</td>
<td>$33,435,000</td>
<td>0%</td>
</tr>
</tbody>
</table>
Impact on CalHFA

- Higher cost of funds (basis mismatch)
  - $14.8Mn for the 3 months from 8/1/08
  - $9.7Mn for the 12 months from 8/1/07 to 7/31/08

- Potential liquidity stress
  - Increased debt service due to elevated interest rates on $4.2Bn of variable rate bonds
  - Term-out provisions for bank bonds require accelerated repayment of bond principal
    - In many cases 10% of the outstanding balance of bank bonds is repaid semiannually
    - On 2/1/09 term-out payments projected to be $12Mn
    - On 8/1/09 term-out payments projected to be $118Mn
Actions taken since last Board meeting

- Met with Federal Housing Finance Agency (Conservator of the GSEs)
  - NCSHA / HFA meeting with James Lockhart Dec 8-9
- Met with Freddie Mac in Washington DC and shared list of asks
  - Short-term or long-term credit facilities for debt restructuring
  - Purchase multifamily and single family mortgage loans
  - Purchase CalHFA bonds
  - Possible follow-up meeting on asks Dec 8-9
- Delivered single family and multifamily loan data tapes to Fannie Mae and Freddie Mac for purposes of pricing prior to potential sale
  - More than 13,000 SF loans with outstanding loan balances of $2Bn
  - Approximately 70 MF properties with outstanding loan balances of $200Mn
Actions taken since last Board meeting

- Reduced funding commitment for the CSHLP program to $25Mn
- Modified the SMART loan program and raised the interest rate to 5.5%
- Additional meetings with DDS, STO and CHHS Agency to discuss financing options for BAHP loans
  - Seek legislative change to credit enhance bonds with moral obligation of state of CA
  - Apply for PMIB loan from STO to warehouse loans for up to one year
  - Sell Bay Area Housing Program Loans to banks or other investors in lieu of issuing bonds
  - Issue low rated limited obligation bonds to finance the Bay Area Housing Program – consistent with resolution 08-44
Ongoing and Potential Future Actions

- Single Family Program - implement program capability to deliver single family loans to FNMA window
- Secure secondary market to deliver new FHA insured loans
- Multifamily Lending - develop program ability to become a DUS lender
- Sale of single family and multifamily whole loans
- Request the PMIB to consider providing CalHFA a larger line of credit for expanded purposes to serve as a bridge loan to restructure CalHFA general obligation debt or to provide warehousing of BAHP loans
Ongoing and Potential Future Actions

- Pursuing conversion of liquidity backed VRDOs to letters of credit
- Updating consolidated cashflows for two largest bond indentures
- Updating capital adequacy analysis
- Stripping bond insurance from existing VRDOs
- Additional remarketing agent reassignments
- Use excess revenues to redeem bank bonds, insured bonds and ARS
- Execute bond redemption / bond restructuring plan
Financing flow: Expected vs. Current

**Expected financing flow**

- Issue Bonds
- Repay Bonds
- New Production
- Portfolio Management
- Loan Origination
- Repayments
- Cash/Invmts

**Current financing flow**

- Invtmt provider downgrades
- High cost primary mkt
- Bank Bonds: both SF & MF
- Portfolio Management
- Repayments
- higher debt service & term outs on Bank Bonds
- Cash/Invmts
- Invmt provider downgrades
- Stronger underwriting
- High delinquency: single-family
- fewer repayments
## Summary of CalHFA’s debt portfolio today

### Building blocks of a variable rate financing

<table>
<thead>
<tr>
<th>Hedging strategy (interest swaps)</th>
<th>Broker/dealer or remarketing agent</th>
<th>Short-term rating (liquidity banks)</th>
<th>Long-term rating (enhanced or unenhanced)</th>
<th>Variable rate mode (ARS or VRDOs)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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### Summary of CalHFA’s debt portfolio

#### Underperforming Financings

<table>
<thead>
<tr>
<th>AIG</th>
<th>Lehman</th>
<th>Various</th>
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<tr>
<td>$200</td>
<td>$287</td>
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<table>
<thead>
<tr>
<th>Dexia</th>
<th>Depfa</th>
<th>Various</th>
</tr>
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<tbody>
<tr>
<td>$383</td>
<td>$134</td>
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<table>
<thead>
<tr>
<th>Insured</th>
<th>Uninsured</th>
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<tbody>
<tr>
<td>$902</td>
<td>$3,108</td>
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<table>
<thead>
<tr>
<th>ARS</th>
<th>VRDOs</th>
</tr>
</thead>
<tbody>
<tr>
<td>$198</td>
<td>$4,011</td>
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**SUMMARY OF PLANS IN PROGRESS**

<table>
<thead>
<tr>
<th>Plan Type</th>
<th>Total</th>
<th>C-O</th>
<th>HHIB</th>
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<tr>
<td>Bond Principal</td>
<td>$848</td>
<td>$258</td>
<td>$590</td>
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<tr>
<td>WPO</td>
<td>$366</td>
<td>$188</td>
<td>$178</td>
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**Affected Qualified Swaps**

- **Lehman**
  - AG
  - AIG

**Non-Qualified Swaps**

- **AIG**
- **AG**
- **Bank of America**
- **Lehman**
- **Merrill**
- **Various**

**Brk/kilo Dollar Remarking Agent**

- **Merrill**
- **Competitive**
- **JPMorgan**
- **Roth**
- **Merrill**
- **Lehman**
- **Merrill**
- **Various**
- **Various**
- **Various**
- **BOA**
- **None**

**Short-Term Rating**

- **None**
- **Scotia**
- **$495**
- **Lloyds**
- **$625**
- **Various**
- **Various**
- **Various**
- **Various**
- **Various**
- **None**

**Long-Term Rating**

- **Uninsured**
- **FSA**
- **$74**
- **MHA**
- **$90**
- **MBS**
- **$45**
- **MBS**
- **$135**
- **FSA**
- **$661**
- **Uninsured**
- **$1,058**

**Variable Rate Mode**

- **VIDO $4.015**

**Index**

- **$2,065**

**Next Step of Tactical Solution**

1. **VIDO $4.015**
   - Skip insurance
2. **VIDO $4.015**
   - Skip insurance
3. **VIDO $4.015**
   - Skip insurance
4. **VIDO $4.015**
   - Skip insurance
5. **VIDO $4.015**
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6. **VIDO $4.015**
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17. **VIDO $4.015**
   - Skip insurance
18. **VIDO $4.015**
   - Skip insurance
19. **VIDO $4.015**
   - Skip insurance
20. **VIDO $4.015**
   - Skip insurance

**Conclusion**

- Using a market-quotiation process to terminate Lehman swaps and replace the swaps with the highest bid rates
- Using a mid-market process to terminate all swaps other than Lehman swaps and using a market-quotiation process to terminate Lehman swaps
Timeline of plans in progress

**EXPECTED TIMELINE**

<table>
<thead>
<tr>
<th>Nov-08</th>
<th>Dec-08</th>
<th>Jan-09</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May to July</th>
<th>August</th>
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<tr>
<td>Financing Activities:</td>
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<td>replace swaps:</td>
<td>LBSF $168</td>
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<td>terminate swaps:</td>
<td>AIG $88</td>
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<td>strip insured VRDO:</td>
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<td>convert G-O ARS:</td>
<td>AIG $130</td>
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<td>convert GO SBPA to LOC:</td>
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<td>replace HMRB Dexia:</td>
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<td>Good restructuring/redemption:</td>
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<td>HMRB Dexia:</td>
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<td>HMRB others:</td>
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<td>GO Depfa:</td>
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<td>GO ARS:</td>
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<tr>
<td>Loan activities:</td>
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<tr>
<td>payoff of multi-family loans:</td>
<td>redeem $17</td>
<td></td>
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<tr>
<td>sale of multi-family loans:</td>
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<tr>
<td>sale of single-family loans:</td>
<td>redeem $75</td>
<td>redeem $238</td>
<td>redeem $590</td>
<td>redeem $10</td>
<td>redeem $28</td>
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<td>Use of excess revenues:</td>
<td></td>
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<tr>
<td>HMRB</td>
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<td></td>
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<tr>
<td>Liquidity renewal:</td>
<td>BNY $53</td>
<td>Lloyds $175</td>
<td>Fannie $71</td>
<td>Calyon $174</td>
<td>JPMorgan $124</td>
<td>BNY $25</td>
<td>BNP $66</td>
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<tr>
<td>successful renewal:</td>
<td></td>
<td></td>
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<td>pending renewal:</td>
<td></td>
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<td>Bank bond term-outs:</td>
<td></td>
<td></td>
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<tr>
<td>-&gt; bank bonds &amp; no renewals</td>
<td></td>
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</table>
Summary of CalHFA's debt portfolio after completion of plans in progress

<table>
<thead>
<tr>
<th>Building blocks of a variable rate financing</th>
<th>Summary of CalHFA's debt portfolio</th>
<th>Okay</th>
</tr>
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<tbody>
<tr>
<td>hedging strategy (interest swaps)</td>
<td>Underperforming Financings</td>
<td>AIG  $112</td>
</tr>
<tr>
<td></td>
<td></td>
<td>various</td>
</tr>
<tr>
<td>broker/dealer or remarketing agent</td>
<td></td>
<td>various $3,133</td>
</tr>
<tr>
<td>short-term rating (liquidity banks)</td>
<td></td>
<td>various</td>
</tr>
<tr>
<td>long-term rating (enhanced or unenhanced)</td>
<td>Dexion $183  Depfa $134</td>
<td>various $3,245</td>
</tr>
<tr>
<td>variable rate mode (ARS or VRDOs)</td>
<td>Insured: $522</td>
<td>uninsured: $3,562</td>
</tr>
<tr>
<td></td>
<td>ARS: $125</td>
<td>VRDOs: $4,084</td>
</tr>
</tbody>
</table>
CalHFA's balance sheet and estimated unrestricted cash/investments

<table>
<thead>
<tr>
<th></th>
<th>HMRB</th>
<th>All other CalHFA</th>
<th>All CalHFA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans</td>
<td>$6,184</td>
<td>Loans $1,710</td>
<td>Loans $7,894</td>
</tr>
<tr>
<td>Cash/Invmts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted</td>
<td>$924</td>
<td>Restricted $440</td>
<td>Restricted $1,364</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>$171</td>
<td>Unrestricted $298</td>
<td>Unrestricted $469</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td>$6,874</td>
<td>$1,669</td>
<td>$8,543</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td>$405</td>
<td>$779</td>
<td>$1,184</td>
</tr>
<tr>
<td><strong>Uses</strong></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>No renewal</td>
<td>$75</td>
<td></td>
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<tr>
<td>Term Outs</td>
<td>$102</td>
<td>$28</td>
<td></td>
</tr>
</tbody>
</table>
Total delinquent ratios
for FHA loans and all conventional loans
(90-day+ past due plus foreclosure inventory at end of quarter)
90-day+ delinquent ratios
for FHA loans and all conventional loans
(90-day+ past due plus foreclosure inventory at end of quarter)
Total delinquent ratios
for the three conventional loan types
(total past due plus foreclosure inventory at end of quarter)
90-day+ delinquent ratios for the three conventional loan types
(90-day+ past due plus foreclosure inventory at end of quarter)

- 5-yr interest-only, 30-yr level (started in June '05)
- 40-yr level (started in June '06)
- 30-yr level
- Mortgage Banker Association's CA Prime